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December 5, 2011

VIA HAND DELIVERY
VIA EMAIL: bill.barron@alaska.gov

RECEIVED

DEC 06 2011

DIVISION OF
OIL AND GAS

William C. Barron
Director, Division of Oil & Gas
State of Alaska Department of Natural Resources
550 W. 7th Avenue, Suite 1100
Anchorage, AK 99501-3560

Re: Extension of Kitchen Lights Unit Agreement

Dear Director Barron:

Furie Operating Alaska, LLC (Furie), formerly Escopeta Oil Co., LLC, hereby applies for an extension of the Kitchen Lights Unit (KLU) Agreement pursuant to 11 AAC 83.336 to January 31, 2016. Furie's attached Amended and Restated Plan of Exploration (POE) reflects Furie's desire to continue its responsible exploration of the KLU with the intent of assisting Alaska in the development and production of its much needed natural gas reserves. Furie has conducted its drilling operations in a manner consistent with prudent drilling operations and in full compliance with all pertinent regulatory approvals, orders and directives. The testing for the presence of hydrocarbons that was done in conjunction with this drilling activity produced interesting and promising results. This activity, and the testing results, justifies a finding that

extension of the Unit Agreement is in the public interest. Accordingly, DNR should approve extending the Unit Agreement as requested herein.¹

Furie has successfully brought a jack-up drilling rig into Cook Inlet and drilled the KLU #1 well to a depth of 8805 MD. Pursuant to appropriate regulatory approvals, orders and prudent drilling practices, Furie has suspended drilling operations for re-entry of the KLU#1 well in 2012.

In applying to extend the term of the KLU Unit Agreement, Furie seeks to move forward with continued exploration and development of the KLU in a constructive and collaborative manner that benefits all parties and the public and which avoids disputes or appeals regarding the good standing of the Unit Agreement. Please note that in making this application, Furie does not waive any arguments regarding the term, extension or good standing of the Unit Agreement, or the previously approved POE, and expressly reserves the right to make any such arguments in the future, if necessary. Furie is willing to make the commitments reflected in the POE absent an event beyond Furie's reasonable foresight and control as contemplated by 11 AAC 83.336.

Background

Furie has been engaged in frequent discussions with DNR regarding the KLU POE, Unit matters, drilling operations and information requests from DNR, since July 2011.² On October 13, 2011, Furie submitted a revised POE to DNR, which was later amended on November 9, 2011 to accommodate DNR's comments. Furie met with DNR staff to discuss the POE on October 26, 2011 and November 9, 2011 and the POE was also discussed both telephonically and in person with DNR on several other occasions.

Furie understands and shares DNR's commitment to safe and responsible development and has conducted its drilling operations in full compliance with all appropriate regulatory requirements. Furie is committed to following best oilfield practices in exploring and developing the KLU. Furie has fully cooperated with DNR and other regulatory agencies and will continue to work with all appropriate regulatory

¹ DNR should also approve Furie's Amended and Restated Plan of Exploration filed in conjunction with this application.

² This is not to suggest an absence of communication prior to this date regarding the Plan of Operations, permits, required reports and information filings, etc. Rather, the frequency of discussions increased in July 2011 and subsequent months with the jack-up rig's transport to and arrival in Alaska and these discussions were largely focused on the KLU POE, Unit matters, drilling operations and information requests from DNR.

agencies to ensure full regulatory compliance. The attached Chart of Permits shows the permits that were obtained for the 2011 drilling season.

Furie has fully satisfied requests for information from DNR and has on several occasions asked DNR whether additional information was necessary. Furie has gone to great lengths to ensure that it provided all information requested, including but not limited to the following:

- detailed information regarding Furie's business structure and finances;
- information regarding specific personnel including an organizational chart and resumes of core operational personnel;
- detailed information regarding insurance and bonding;
- well data including well logs and analysis;
- a number of structure maps of the KLU;
- daily reports of drilling operations;
- rig location reports including mobilization to Cook Inlet, and then from the well site to Port Graham;
- a shallow hazard survey as well as the underlying data;
- all information required under the Plan of Operations; and
- an operator questionnaire although the company has been operating in Alaska for years.

Attached please find a communications log that references information that was provided to DNR from March 2011 through the date of this application. Also attached is a meetings log that shows the frequency of telephonic and in-person meetings between Furie and DNR from July 2011 through the date of this application.

Discussion

AS 38.05.180(p) authorizes the Commissioner to approve an oil and gas unit. DNR evaluates extensions of unit agreements under 11 AAC 83.336(2) and must consider the criteria specified in 11 AAC 83.303. Furie explored responsibly in 2011 and has planned a responsible exploration program that makes commitments for exploration drilling and timely development of much needed natural gas. Extending the Unit Agreement promotes conservation of all natural resources, promotes the prevention of economic and physical waste, and provides for the protection of all parties in interest, including the State. In evaluating these factors, DNR will consider the criteria set forth in 11 AAC 83.303(b). As discussed below, an extension of the Unit Agreement until January 31, 2016 is in the public interest and should be approved.

1. The Environmental Costs and Benefits of Unitized Exploration or Development.

Furie has taken and will continue to take all necessary measures to prevent or mitigate environmental impacts from its activities. Extending the Unit Agreement does not amend any mitigation measures as stipulated in the leases, the Plan of Operations, or elsewhere. Furie has complied with and will continue to comply with all permitting requirements. Extending the Unit Agreement does not pose any risk to the environment.

Further, exploration and development in a unit will result in fewer environmental impacts than would likely occur if exploration and development were on a lease-by-lease basis, or by multiple operators with varying business models and objectives.

2. The Geological and Engineering Characteristics of the Potential Hydrocarbon Accumulation or Reservoir Proposed for Unitization.

DNR has previously considered the geological and engineering characteristics of the KLU.³ More recently, Furie has provided geological, geophysical and engineering data from the KLU #1 well, including well logs and third-party (NuTech Energy Alliance and Waters Petroleum Advisors) analysis of the logs. Furie provided this information on November 9, 2011 with the assistance of Waters Petroleum Advisors, and met with DNR to discuss the data and the POE on that date. Furie, with both Waters Petroleum Advisors and NuTech Energy Alliance, again met with DNR on December 1, 2011 to provide additional presentations regarding geologic data and a discussion of the well data and analysis. The attached communications log shows that the well data has been provided.

The well logs and geological analysis show significant hydrocarbon intervals and are very encouraging, particularly given that the well was only drilled to 8805 MD, about half the depth to which it ultimately will be drilled. Furie is planning to re-enter the KLU#1 well in 2012 and drill into pre-Tertiary for further evaluation and testing. Furie then plans to drill additional delineation/development and exploration wells. Extending the Unit Agreement will allow the delineation of the size and extent of the accumulation.

The geologic structure of the KLU has been shot with 2-D seismic. Former lessees of this acreage have done considerable geophysical evaluations of the area. Furie, through its predecessor Escopeta Oil Company, LLC has reprocessed over 300 line miles of seismic which covers approximately 160 square miles. The existence of the KLU geologic structures have been well known for several years.

Extending the Unit Agreement will also aid in ensuring that the Unit area is explored earlier than it would be on a lease-by-lease basis. If the Unit were to terminate, the leases would have to be re-leased and the lessees would have to acquire and process seismic data, obtain permits and acquire an appropriate offshore drilling rig to explore the Unit area. Thus, not extending the Unit Agreement would likely delay exploration and development by a number of years.

3. Prior Exploration Activities in the Proposed Unit Area.

DNR has previously considered prior exploration activities in the Unit area.⁴

³ For instance, see pages 5-10 of the June 30, 2009 decision approving the Application for Expansion of the Kitchen Unit Area to Form the Kitchen Lights Unit.

⁴ For instance, see pages 5-10 of the June 30, 2009 decision approving the Application for Expansion of the Kitchen Unit Area to Form the Kitchen Lights Unit.

4. The Applicant's Plans for Exploration or Development of the Unit Area.

Furie has obtained a jack-up rig and put it to work in Cook Inlet. The Amended and Restated Plan of Exploration submitted simultaneously with this Application is a responsible path for exploration and development of the KLU. Furie has invested considerable resources⁵ and fully intends to explore, drill and develop the Unit area to the extent development is justified. The POE reflects Furie's desire to continue responsible exploration of the KLU to assist Alaska in the development and production of much needed natural gas for Alaskans. The POE describes three exploration blocks (North, Central, and Southwest) that are structurally separated by faults and structural lows.⁶ Because of Alaska's need for natural gas and in light of the preliminary results of

⁵ For 2011, the POE reflects the discussions that Furie had with DNR and other regulatory agencies regarding when drilling duration operations could begin and end, and Furie's concern for safe operations. The 2011 drilling season was originally scheduled to end on October 31, 2011. Furie was granted an extension to November 15, 2011 to mobilize the rig from the KLU #1 well. Due to low temperatures, Furie decided to cease drilling on October 28, 2011. The well was safely capped and secured on November 13, 2011. Severe weather delayed the tugs and the rig was ultimately under tow on November 22, 2011. The rig's arrival in Port Graham for winter layup was delayed due to weather and rough seas until November 24, 2011. Furie was in communication regarding the status of the rig with the regulatory agencies throughout these events.

Bringing the rig to Alaska from the Gulf of Mexico was an enormous undertaking, especially given the severe weather conditions that accompanied that voyage. Preparing the rig for transportation, and transporting it around South America (the rig is too large to transit the Panama Canal) to Alaska, all the while being forced to deviate or stop for unanticipated weather and weather related repairs, consumed much of the 2011 drilling season. Approximately 24 days were lost due to extreme weather conditions experienced during transport and associated repairs. This time included:

- deviations from course and sheltering in Montevideo, Uruguay and the Chilean channels due to severe weather, and returning to course;
- time spent deviating from course to British Columbia for inspections of the rig legs and repairs required due to the rig shifting on the transport vessel during storms around South America, and returning to course; and
- time expended holding the tow in Prince William Sound prior to entering Cook Inlet due to severe weather.

⁶ The leases within each block are shown in Kitchen Lights Unit, Exhibit A, Kitchen Lights Unit Tracts/Leases (Confidential) and Kitchen Lights Unit, Exhibit B, Map of KLU With Exploration Blocks (Confidential).

the KLU#1 well which is located in the Central Exploration Block, initial drilling activity is focused on that block.

Furie will re-enter the KLU#1 well in 2012 and continue drilling to evaluate the pre-Tertiary in 2012. Furie also plans to drill another well in 2012 in the Central Block and will continue drilling operations pursuant to appropriate regulatory approvals and prudent drilling practices. Depending on the results of these wells, Furie will, if appropriate, request approval of a Participating Area and Plan of Development and move forward with design and fabrication of production equipment and facilities during the 2012-2013 winter season.

Depending on the results of the 2012 drilling season, in 2013 Furie plans to drill either (1) two development natural gas wells or (2) an exploration well in either the North Exploration Block or the Southwest Exploration Block.

For 2014, Furie plans to drill one exploration well in the exploration block in which Furie has not yet drilled a well. If Furie does not meet this requirement, Furie shall select an exploration block that will contract out of the KLU to the extent that any acreage is not already within the boundary of an approved or pending participating area.

For 2015, Furie plans to drill one exploration well in either the North Exploration Block or the Southwest Exploration Block. If Furie does not meet this requirement, Furie shall select an exploration block that will contract out of the KLU to the extent that any acreage is not already within the boundary of an approved or pending participating area.

The POE requires Furie to conduct timely exploration, evaluation and development activities that will result in production sooner than if the leases were re-leased and explored individually. The commitments for the 2012 and 2013 years reflect the need to evaluate the pre-Tertiary and delineate and develop the natural gas resource that has been discovered, and the need to implement development options with an eye toward accelerated gas production. The commitments for 2014 and 2015 reflect the need to explore other blocks in the Unit and set forth the remedies for not meeting those commitments. Extending the Unit Agreement would ensure that the KLU will be explored and developed more quickly than if the leases were re-leased.

5. The Economic Costs and Benefits to the State and Other Factors.

Extension of the Unit Agreement would benefit the State by creating jobs associated with oil and gas exploration and development. The rig is already in Alaska and Furie has drilled the KLU #1 well. Extending the Unit Agreement would ensure timely exploration and development of the KLU. With timely exploration and development comes economic activity and jobs. Exploration and development will happen sooner if the Unit Agreement is extended than they would on a lease-by-lease basis.

As stated above, if the Unit were to terminate, the leases would have to be re-leased and the lessees would have to evaluate the acreage, obtain the necessary permits and acquire an appropriate offshore drilling rig to explore the Unit area. Furie has obtained a jack-up rig and has set forth a responsible and measured plan for exploration and development. Not extending the Unit Agreement would likely delay exploration and development by a number of years.

Extending the Unit Agreement would greatly benefit the State through additional oil and gas exploration and development in the face of a looming energy crisis. Not only will a commercial discovery lead to additional energy, the State will earn royalty and tax revenues over the life of the field.

Furie is committed to the safety of human health and the environment. Furie has been fully cooperative in providing information to DNR and other agencies and will continue to work with regulatory agencies to ensure full compliance and best oilfield practices.

Unitized development promotes the conservation of all natural resources, protects all parties of interest, and prevents economic and physical waste. The short term benefit of revenue from bonus bids in a lease sale is outweighed by the benefits of unitized development under Furie's POE and the benefits to Alaska residents of an accelerated natural gas development program.

Conclusion

An extension to the Unit Agreement satisfies the criteria in 11 AAC 83.303 by promoting conservation of all natural resources, promoting the prevention of economic and physical waste and providing for the protection of all parties in interest, including the State.

Extension of the Unit Agreement will further the goals of bringing new business and oil and gas activity to Alaska. Members of both the legislative and executive branches have signaled that this is a priority.

Furie intends to use all responsible and commercially reasonable efforts to meet its drilling commitments. Extending the KLU Unit Agreement as proposed will further safe exploration in Cook Inlet and promote the most immediate opportunity for additional gas development and production all of which would benefit the people of Alaska at a time of great need.

Please contact me if you have any questions or would like additional information.

Best regards,



Edward Page Oliver
President

Attachments:

Furie Operating Alaska, LLC/DNR Communications Log
Furie Operating Alaska, LLC/DNR Meetings Log
Furie Operating Alaska, LLC Chart of Permits
Kitchen Lights Unit, Exhibit A, Kitchen Lights Unit Tracts/Leases (Confidential)
Kitchen Lights Unit, Exhibit B, Map of KLU With Exploration Blocks (Confidential)
Kitchen Lights Unit, Exhibit G, Amended and Restated Plan of Exploration Filed in
Conjunction With Application to Extend Unit Agreement December 5, 2011

cc: Patricia Bettis, DNR